

# **Financing Hawaii's Sea Water Air-Conditioning Initiative**

**Bringing the Right Resources Together**



# Norventus Group Experience

- **Former VP & GM of 100,000 ton district cooling system in Chicago**
- **Proven project finance experience – three projects, \$160M in debt**
- **Institutional relationships – two projects, \$300M in equity**

# **Sea Water Air-Conditioning Current Situation**

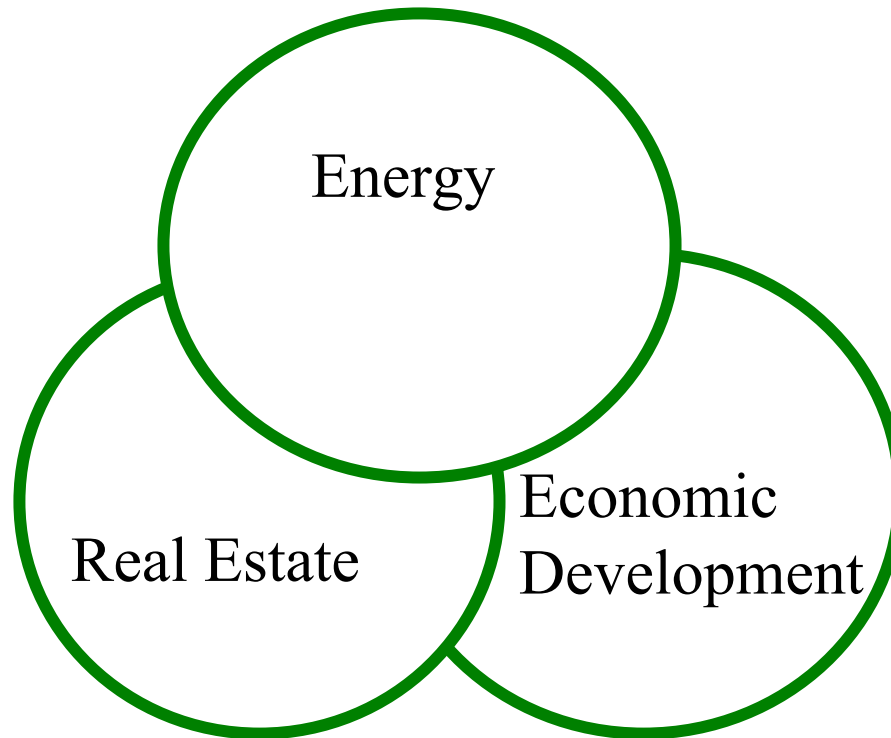
- **Feasibility Analysis Completed 10/02**
- **Previous District Cooling Market Tests**
- **SWAC Technology Precedent Exists**
- **Government Mandates/Support**
- **Skittish Financial Markets**

# Barriers to Progress

- **Access to Capital – investor sentiment**
- **Technical Complexity – impact on pro forma**
- **Market Acceptance – strategic sales cycle**

**International District Energy Association report for the US DOE,  
February 2002**

# Different Things to Different People



# The Value Proposition

## Fuels

- Government – energy leadership
- Government – economic development
- Utilities – load management
- Investors – actionable risk/reward profile

## Catalyst

- Consumer – real estate value and energy citizenship
- The Triple Bottom Line?

# Purpose of a Finance Plan

- **Brings credible district energy investors to the table**
- **Achieves favorable balance between cost of capital and covenants**
- **Ensures long term funding commitment**
- **Results in a close!**

# Capital Markets - Equity Pool

- **Utility**
  - Contracting field
  - Skepticism pervasive at this time
- **Institutional**
  - Pension funds, experience and a long term hold
  - Family offices, liquid but shorter term hold
- **Investment funds**
  - Specific district energy funds emerging
  - Private equity, broader markets



# Capital Markets - Debt Pool

- **Institutional**

- Insurance companies, reasonable coverage ratios
- Pension funds, larger spreads against a lesser index

- **Commercial**

- Construction financing
- Investment banks
- Smaller spreads against a higher index

- **Municipal**

- Infrastructure bonds (special purpose revenue)
- Tax increment or enterprise zone financing
- Special assessment bonds – creative impact funding

# Complex Projects

**“A lot can be accomplished with current resources if we don’t stand around wringing our hands because of lack of funding or complex requirements.”**

**City Manager, 1988**

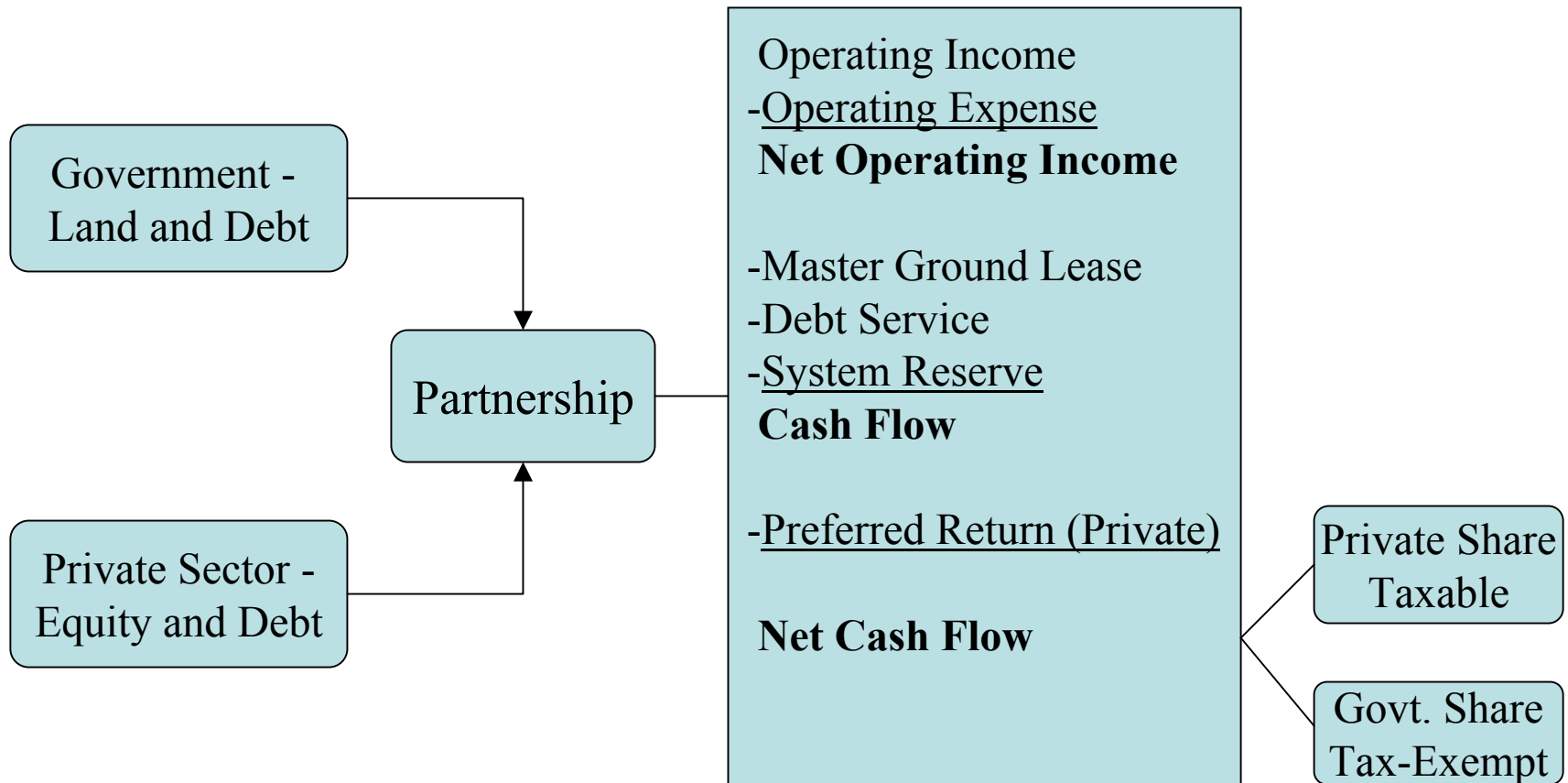
# Resource - Public Private Partnership

- Bridge the gap between conventional project financing and a desired outcome
- Public participation creates synergy and instills confidence within the consumer base
- Access to land and schedule acceleration
- Aligned interests, teamwork, open communication .... not an arm's length transaction

# PPP Methodologies

- **BOT – Build/Operate/Transfer**
- **BTO – Build/Transfer/Operate**
- **BOO – Build/Own/Operate**
- **Can put a D in front of any of these**

# PPP Sample Structure



Source: US General Accounting Office: "Public-Private Partnerships: Factors to Consider When Deliberating Governmental Use as a Real Property Mgt. Tool", 2001

# PPP - References and Case Studies

- **PPP's utilized for water treatment systems all over the North America**
- **Also have been successfully applied to district energy/cooling projects**
- **Used often in urban master planning including infrastructure initiatives**

# Manage Expectations re: Project Finance

- Reasonable, secure equity returns; this is not venture capital
- Composite debt rates that are competitive
- Calling all Guarantors! – PPP influence
- Attainable coverage ratios – creative financing and/or staged investment

# Lessons Learned

- **Retail loads result in unattainable debt coverage ratios unless:**
  - significant amount of pre-sold is accomplished
  - government-backed or guaranteed
- **Unregulated “utilities” may not have patience for this type of project to “go it alone”**
- **Creditworthiness of consumers, market sustainability, and solid contract terms tantamount to successful financing**



# **Cash May Be King ....**

## **But, Project Financing Also Requires:**

- **Management experience**
- **Marketing horsepower**
- **Proven, operational excellence**

# Finance Plan - Next Steps

- Develop qualifying prospectus
- Public-private partnership organization
- Financial market feasibility
- Consumer market feasibility

If these pieces fit together, then an

- Offering Memorandum

# SWAC Workshop – Pro forma precursor

- The market will bear .....
- Price Point Analysis annualized to reflect consumer perspective
- Differentiate consumer load profiles
- Chilled water rate structure satisfies multiple criteria
- Real estate - \$/sq. ft. comparison

# **SWAC Workshop - Preliminary Pro forma**

**Case – Downtown Honolulu, Phase 1**

**Load – 8,465 Tons**

**Total Capital - \$42M**

**Composite Debt Rate – 6.25%**

**Equity – 30% of CapEx**

**Return on Equity – 13 %**

**Debt Coverage Ratio - 1.50 (EBITDA/P&I)**

# SWAC Workshop - Preliminary Pro forma

Phase	1	2	3
Tons	8,465	12,700	16,930
CapEx	\$42M	\$48M	\$50M
ROE	13.0%	19.0%	24.5%
C.R.	1.5	2.0	3.0

**Note: West Waikiki will post comparable return figures (i.e. the Honolulu business model is closely replicated)**

# Other Upside Opportunities

- Thermal Storage – ECI Tax Credit
- Act 221 – QHTB Tax Credit
- Bonus Depreciation – IRS Qualification
- Utility Rebates
- Federal REPI

# **Food for Thought – Idealistic Perspective**

**“Assuming a future makes the present endurable and the past meaningful – having a project about the future is the most important moral endeavor any human being can have.”**

**John McHale, 1969**

**“The future does not simply happen – it is consciously or unconsciously built”**

**Eleonora Masini, 1983**